

# Focus on Nigeria

FINNFUND INSIGHTS

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## COVER

Nigeria is Africa's second-largest economy (in purchasing power parity terms) and the 15th-largest oil producer in the world. Its large agricultural and mineral resources and favourable demographics underpin the country's strong potential. *Photo: Shutterstock*

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# Foreword

Nigeria is Africa's second-largest economy (in purchasing power parity terms) and is the 15th-largest oil producer in the world. Together with its large agricultural and mineral resources, favourable demographics underpin the country's strong potential. The United Nations (UN) expect that Nigeria's population will grow by 54 percent between now and 2050, which ranks it as one of the fastest growing populations amongst peer countries (Figure 1). The large and rapidly growing consumer base that will come from this population growth, together with increasing urbanisation (expected to rise from 57 percent in 2023 to 68 percent by 2050), has the potential to create sizable opportunities for private firms operating in the country. Moreover, the private sector will also be able to capitalise on Nigeria's young, entrepreneurial workforce to drive productivity growth through leveraging technology.

Because of its size and growth potential, Nigeria has become one of Finnfund's most important markets. However, the country has undergone a severe macroeconomic crisis in recent years, which has created a challenging environment for businesses. We recently visited Nigeria to better understand how the country is addressing these challenges and assess prospects for businesses moving ahead. This report is based on several meetings and interviews conducted during our trip.

**Tangeni Shatiwa**  
*Economist, Finnfund*



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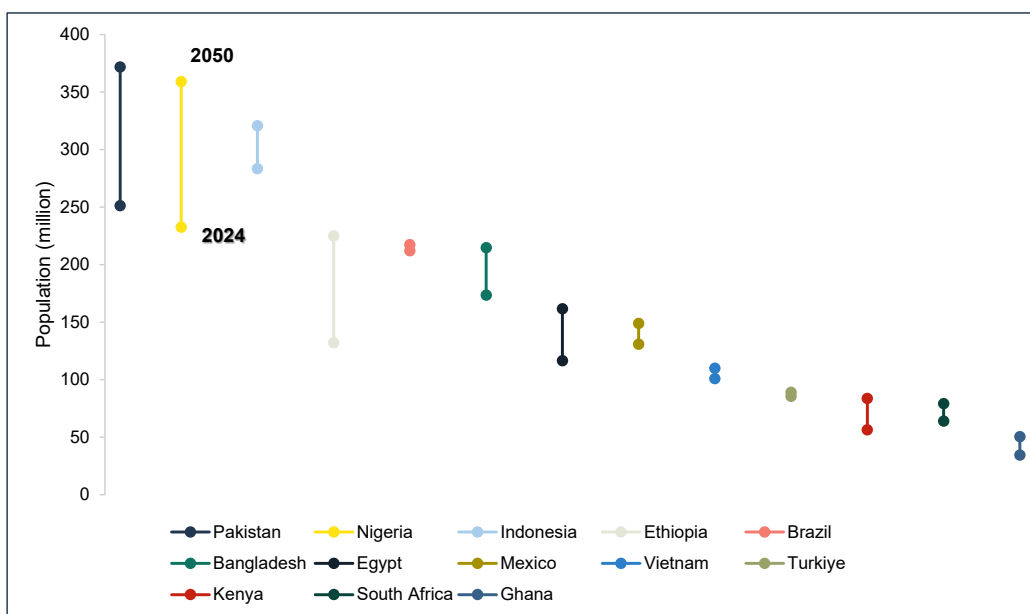
# Macroeconomic developments and outlook

## Bold reforms were needed to address a weak economy

After taking office in 2023, the new government faced several structural challenges. According to the World Bank, real per capita GDP had declined by 0.7 percent on average over the preceding decade, driving much of its population deeper into poverty. These challenges were exacerbated by the Central Bank of Nigeria (CBN) artificially fixing the value of its currency, which severely limited access to foreign

exchange (FX) within the country. At the same time, public finances were constrained by an opaque fuel subsidy system which often drove fuel shortages, and exacerbated inflation as the CBN were largely forced to finance the government’s growing deficits. All in all, these policy mistakes drove the country into its worst macroeconomic crisis in decades in 2022-23.

Figure 1: Nigeria to experience one of the largest population increases among peers by 2050



Source: UN World Population Prospects (2025)

In response, the authorities have been forced to embark on a series of bold reforms. In June 2023, the Central Bank fully floated the currency, cleared a substantial amount of FX arrears, while at the same time stopped financing the government's deficit. On the fiscal side, revenue collection efforts have been strengthened and the fuel subsidy was fully unwound in 2024 to alleviate pressure on public finances. The decision to float the currency and unwind the fuel subsidy has increased hardship for the Nigerian public, but it is necessary towards putting the country on a path towards long-term economic resilience. Reforms in the oil sector have also been highly positive, as security efforts have been beefed up to address production losses due to theft. Also, the opening of the new Dangote refinery has positioned the country up the value chain and reduced its need for fuel imports.

Overall, we are seeing signs that Nigeria is beginning to exit the most painful phase of its reform agenda. The FX reforms have been a crucial boost to the country's international reserves and access to FX in the official market has improved drastically. This progress also allowed Nigeria to successfully return to international capital markets at the end of 2024 after years of limited access, and it earned the country a credit rating upgrade in April 2025.

## **Economic growth is showing signs of improvement**

Given the progress made on reforms, economic activity has started to show encouraging signs of improvement. Annual economic growth rose from 3.3 percent in 2023 to 4.1 percent in 2024 – its highest level over the past decade outside of 2021-22's post-pandemic rebound. The pickup in economic activity has been led mainly by the information and communication technology (ICT) sector, which is benefiting from robust demand for data services.

From our perspective, this shows that investor confidence towards Nigeria is improving. However, the benefits from these reforms have yet to be felt by Nigerian society, which the authorities will need to address for the country to reach its potential. These challenges include addressing inflation to support household incomes, as well as improving education and employment outcomes for its fast-growing population.

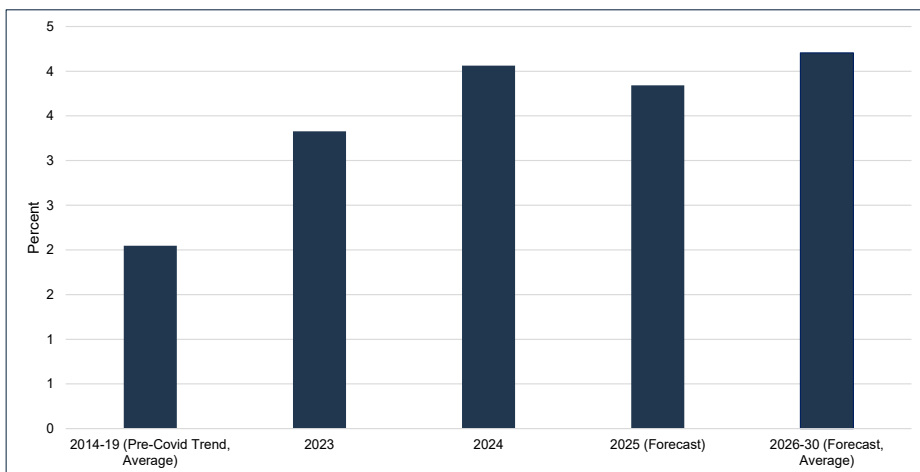
**Overall, we are seeing signs that Nigeria is beginning to exit the most painful phase of its reform agenda.**

Also, financial services have been a key contributor to recent growth, as high interest rates and realised FX gains (after 2023's naira devaluation) resulted in the sector expanding by over 30 percent in 2024. Encouragingly, significant recovery in Nigeria's oil sector is also underway after years of underperformance – with production rising to its highest level in over four years. On the downside, growth in the agricultural sector has been subdued due to high input costs and negative spillovers from Nigeria's weak security situation.

Year-to-date, the policy reforms have supported further improvement in Nigerian business activity. Stanbic’s Purchasing Managers Index (PMI), which represents a gauge for business conditions in manufacturing and services, rose from 46.9 points (which signals contracting output and orders) in October 2024 to 54 points by July 2025 (Figure 3). We expect that this momentum, together with the ramp up of the Dangote refinery, will keep growth above its historical trend both this year and in further ahead in the medium term (Figure 2).

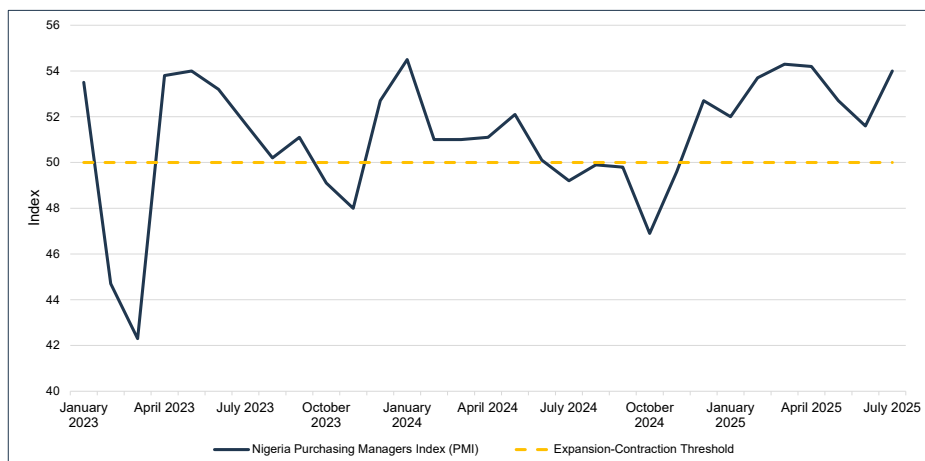
**Financial services have been a key contributor to recent growth, as high interest rates and realised FX gains resulted in the sector expanding by over 30 percent in 2024.**

**Figure 2: GDP growth to stay above trend**



Source: Fitch Ratings (2025)

**Figure 3: Business activity continued to expand in 2025**



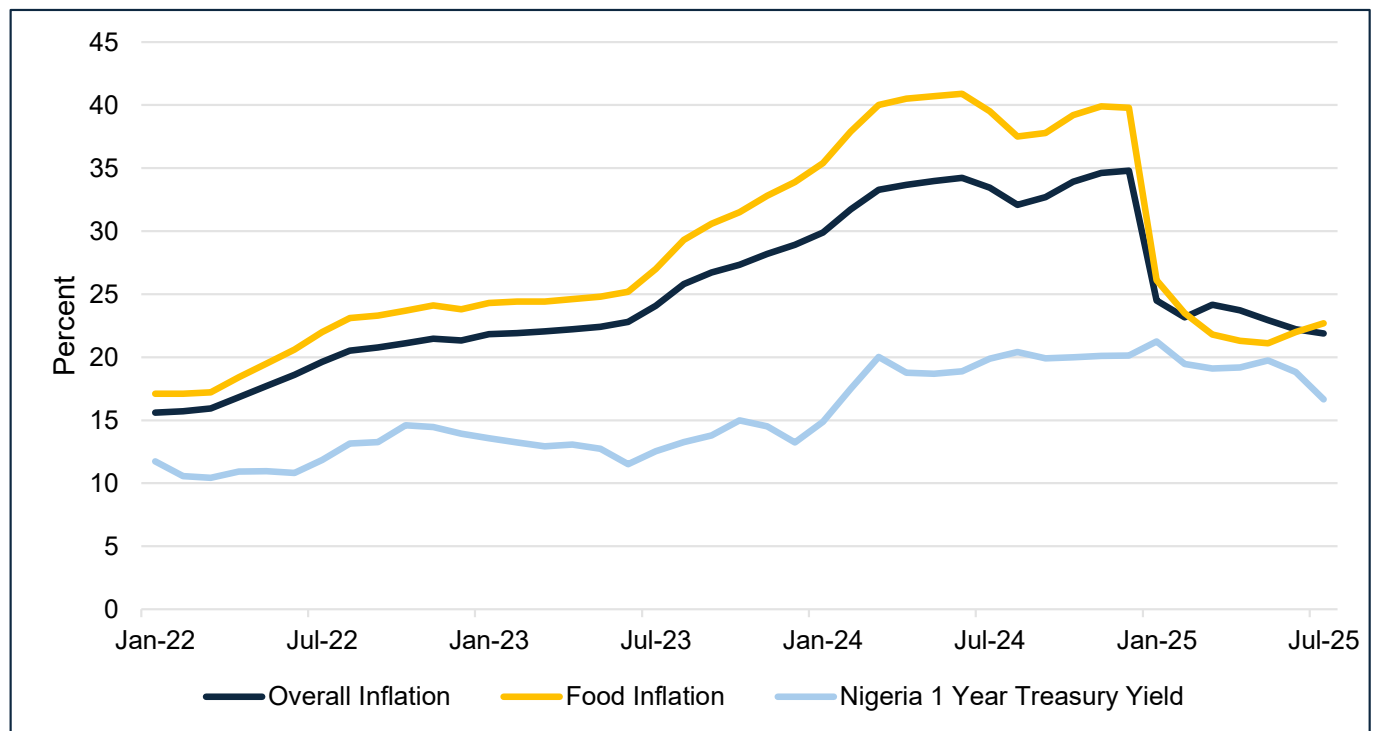
Source: Refinitiv(2025)

### Inflation remains high, but is trending in the right direction

Nigeria’s inflation has been stubbornly high and persistent in recent years. However, we have also started to see some positive signs on this front in recent months. Year-to-date, overall inflation has declined from 24.5 percent to 21.8 percent as of July 2025 – which is its lowest level in two and a half years. While this has partly come from a revision in statistical methodology, it also reflects some moderation in food price pressures (Figure 4). In Nigeria’s context, moderating food inflation is important as most households spend a disproportionately high share of income on food and as such, food prices carry a lot of social risks.

With inflation likely having peaked, we expect that this will provide the CBN with enough space to begin lowering interest rates in the latter part of this year and in 2026. This will be important for reducing public borrowing costs, given that interest payments consume a large share of government revenue, and around 80 percent of its 2025 borrowing requirements will come from domestic sources. Nigerian treasury yields have already fallen from 21.2 percent at the beginning of this year to 16.9 percent by August 2025 – a welcome development for its strained public finances. Moving forward, Moody’s Analytics expect that yields will continue to fall to 13 percent in 2026.

Figure 4: Inflation is easing, which will help to bring down interest rates



Source: CBN (2025)

### External sector looks much healthier

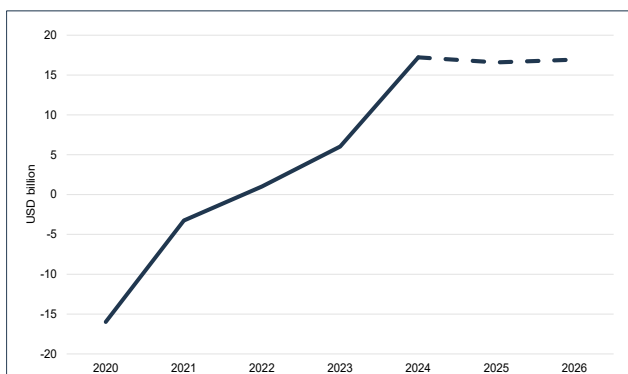
Undoubtedly, the positive impact of the reforms has been most visible in Nigeria’s external sector. The current account surplus strengthened from 1.8 percent of GDP in 2023 to 9.2 percent of GDP at the end of 2024, driven mainly by higher remittance inflows (which have resulted from more stability in the naira) and lower fuel imports due to the opening of the new Dangote refinery. This has helped the country to build up a sizable level of FX reserves, which also puts the naira on a much more stable footing compared to past years. (Figure 6)

Another positive is that the Nigerian economy is more insulated from tariffs than many other emerging markets. While it faces a 15 percent reciprocal tariff on its exports to the US, virtually all of it – mainly oil and gas products – are exempted. On the downside, the decline in oil prices due to the global

trade war will moderate the positive dynamics of Nigeria’s external balance but it will not reverse it entirely. Fitch Ratings expect the current account balance will moderate to 5.7 and 4.8 percent of GDP in 2025 and 2026 respectively – well above the 1.0 percent average surplus recorded between 2010 and 2024.

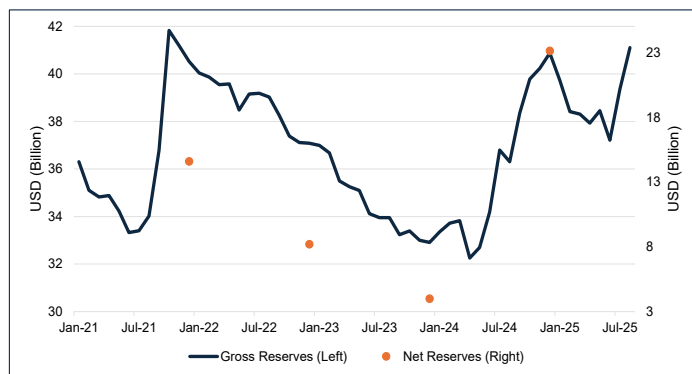
*“Undoubtedly, the positive impact from the reforms has been most visible in Nigeria’s external sector.”*

**Figure 5: Sharp improvement in current account**



Source: CBN, Fitch Ratings/BMI (2025)

**Figure 6: Which is supporting higher FX reserves**



Source: CBN (2025)

### Some progress on fiscal consolidation

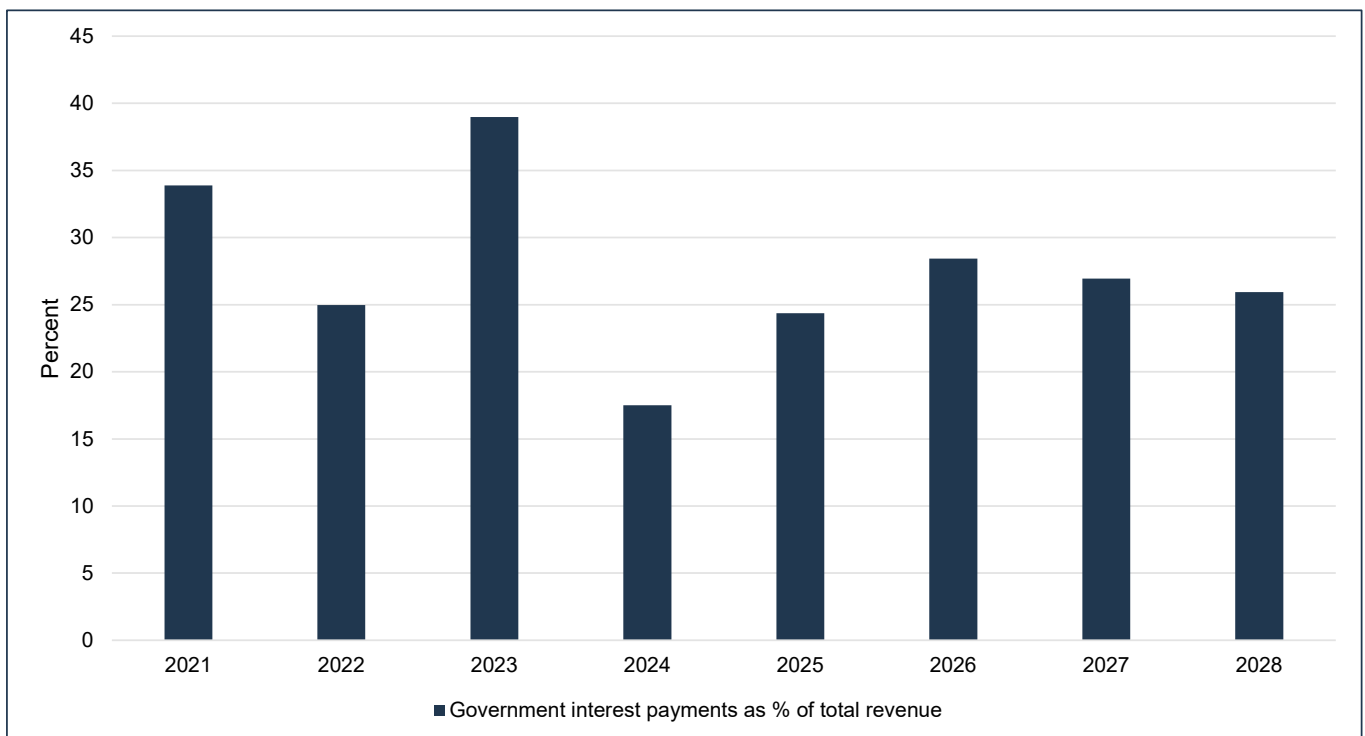
Nigeria’s poor fiscal outcomes have been a huge concern for investors in recent years. Despite its relatively low debt burden (estimated at 39 percent of GDP in 2024), its debt is highly unaffordable given that a third of its revenue goes towards repaying debt. Moreover, half of its debt is denominated in foreign currency, which leaves its public finances highly susceptible to sharp declines in the naira, such as in 2023.

While the fiscal situation still remains extremely challenging, there has been some progress on this front as well recently. The government’s primary balance shifted from a deficit of 0.5 percent of GDP in 2023 to a surplus of 0.8 percent of GDP in 2024. This largely resulted from the elimination of the fuel subsidy, which previously cost the government about 2 percent of GDP. At the same time, enhanced tax collection efforts have boosted revenue by about

2 percent of GDP, and the devaluation of the naira has boosted revenue from the country’s USD-linked (oil) sales. However, there remains limited room for the government to increase spending on key items such as capital expenditure or social transfers, which are critical for the country’s development.

Moving ahead, 2024’s primary surplus will moderate as spending increases in the lead up to 2027’s election cycle. Also, the government will have to plug the \$440 million hole in health funding left by cuts to USAID, adding some further pressure on its finances. Lower global oil prices will also have a negative impact on revenue, but this is partially offset once the Nigerian National Petroleum Corporation (NNPC) ends its withholding of oil revenue transfers to the government after historical debts to the company are cleared.

Figure 7: High debt serving requirements limits Nigeria’s fiscal space



Source: Fitch Ratings/BMI (2025)

## Bottlenecks for the private sector

Despite the progress made over the past 2 years, Nigeria's private sector still faces several challenges. Unreliable access to electricity undoubtedly represents the biggest of these constraints. On an annual per-capita basis, Nigeria only consumes around 144 kWh, which is far below regional peers such as Ghana (351 kWh) and South Africa (3,800 kWh).

The private sector has had to contend with power outages for an average of eight hours per day, which has driven some companies to relocate operations to neighboring countries. The World Bank estimates that economic losses from unreliable electricity supply cost Nigeria 5-7 percent of its GDP with a disproportionately high impact on MSMEs. This situation has led to Nigeria having the world's largest market for private backup diesel-powered generators.

To assist in addressing Nigeria's power challenges, Finnfund invested in **Beacon Power Services** (BPS) in 2024. BPS offers real-time grid monitoring and control solutions to Nigeria's utilities to help them manage their power distribution more effectively. This investment also helps Nigeria to reduce its reliance on diesel generators, which is significant in reducing its high carbon footprint.



Another constraint for the private sector has been limited access to financing. According to data from the World Bank, domestic credit to Nigeria's private sector only amounted to 12.9 percent of GDP in 2024 – far below the average across Sub-Saharan Africa (20.1 percent) or lower middle-income countries globally (34.0 percent). This has been caused by high interest rates, which have weighed on credit demand, as well as crowding out from public borrowing given the government's high domestic borrowing requirements. Also, bank deposits are predominantly short-term in nature, which constrains the sector's ability to extend financing on a longer-term basis. Much progress on this front is needed to unlock the country's growth potential – especially in capital-intensive sectors such as renewable energy, manufacturing or agriculture.

Finally, a deteriorating security situation has also been a key concern for the private sector. The northern and southeastern regions have traditionally suffered from high levels of theft, violence and kidnappings, which have collectively undermined Nigeria's ability to attract investment. The government have made considerable progress in addressing theft in the oil-rich Niger delta over the past 12 months, but limited resources will continue to leave a security vacuum in northern and central areas of the country.

Beacon Power Services (BPS) is an African software company providing African utilities with essential software and services with a "pay-as-you-need & grow" model. *Photo: BPS*

## Sector focus

### Digital sector

Nigeria, Africa's second-largest telecommunications market, offers significant investment opportunities due to its low broadband internet subscription rate, which is less than half of the population. This is well below regional peers, indicating a largely untapped market with potential for profitable investments. Expanding digital access would drive growth across various sectors and enhance social and economic inclusion. The Nigerian Communications Commission (NCC) reports that approximately 27 million Nigerians, primarily in rural areas, lack access to telecom services. The NCC is working to improve connectivity in these areas where network-as-a-service (NAAS) models can assist mobile network operators (MNOs) in achieving NCC's goals. Finnfund's portfolio company, **Africa Mobile Networks** is supporting this initiative.

Despite the substantial internet usage gap, with 120 million people offline as of late 2023 and early 2024, investment in fiber-optic networks remains crucial for supporting Nigeria's digitalisation. However, challenges such as the devaluation of the naira and high right-of-way fees have impacted telecommunications infrastructure investments. The devaluation has created a gap between the higher costs of equipment priced in US dollars and the lower revenues earned in naira, making it difficult for operators to afford necessary investments. Additionally, fiber operators face frequent fiber cuts due to accidental damage, and regulatory improvements are needed to address these issues. The regulator must also enhance the wholesale fiber network, especially in inter-city areas, where high fees and limited access options restrict ISPs from operating in the market, essentially limiting competition and sector development.

Furthermore, Nigeria's data centre market is expected to grow from \$648 million in 2023 to \$973 million by 2032. However, the market faces constraints such as access to foreign investment and reliable power supply, which are critical for its development. Addressing these challenges will be essential for tapping into the full potential of Nigeria's telecommunications and data centre markets.



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**Niklas Simola**  
Investment Manager, Finnfund

## Digital solutions

In 2024, Nigeria regained its position as the top VC destination with \$520 million in funding (+11% YoY) across 103 deals, with the fintech sector representing the majority of these deals - a trend observed in many of our markets. Key deals included Moniepoint's \$110 million and Moove Africa's \$100 million rounds. However, during H1 2025, Nigeria dropped to the 4th position among all markets on the continent, raising only \$176 million, while other countries in the Big 4 (Egypt, Kenya, and South Africa) gained more funding. The trend indicates that investors are increasingly conscious of macro-related risks in Nigeria, despite the country boasting some of the most intellectual founders on the continent.

Finnfund invested in **TradeDepot** in 2023, a company which has developed an integrated retail distribution platform designed to connect global suppliers, distributors, wholesalers, and retailers. The company's platform provides predictive analysis to run targeted campaigns, set product prices competitively, optimise inventory, and auto-generate sales promotions. This enables consumer goods companies to have visibility and control over the route-to-market for manufacturers and avoid out-of-stock situations. Despite macroeconomic challenges in Nigeria, the company has been able to weather the storm and come through with margin expansion through its strong partnership network with local and global brands.



TradeDepot has developed an integrated retail distribution platform designed to connect global suppliers, distributors, wholesalers, and retailers.  
 Photo: TradeDepot

## Financial sector

There are currently around 26 commercial banks in Nigeria. Despite macroeconomic difficulties, a challenging regulatory environment and a large unbanked population, the sector has been very profitable. In 2024, the top 5 banks in the country recorded return on assets (ROA) of 3.8 percent and return on equity (ROA) of 31.5 percent respectively. While profitability will moderate over the next few years in line with declining interest rates and lower revaluation gains, we expect that the banks are

well-positioned to handle this. This is because of ongoing recapitalisation efforts across the sector to meet revised CBN minimum capital requirements, which will boost the sector’s resilience to future downturns.

The industry’s non-performing loans (NPL) ratio has increased above the CBN’s 5 percent prudential threshold recently, but this largely resulted from a reclassification in loans after the CBN’s most recent annual risk assessment for the sector. Generally, the industry’s latest NPL ratio (5.6 percent in April 2025) remains relatively low compared to regional peers, and has fallen significantly from its peak in 2017. The improvements over the years have largely come from stricter regulatory measures and enhanced supervision. Recently, CBN has also issued directives to banks, which leave them with more room to make loan loss reservations, which will improve asset quality over the long term.

Currently, Finnfund has active direct investments in **Access Bank** and **First City Monument Bank**, which are both among the top ten largest commercial banks in Nigeria. These investments have supported on-lending to the MSME sector, which is important in supporting growth and creating jobs in a country where a large portion of the work-aged population is self-employed.



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Väinö Esilä  
Portfolio Manager, Finnfund



Access Bank is the largest bank in Nigeria. It serves retail, small, and medium-sized enterprises as well as corporate clients. Photo: Finnfund

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For more information,  
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[www.finnfund.fi/en](http://www.finnfund.fi/en)

